

LOS ANGELES - LONG BEACH INDUSTRIAL MARKET REPORT

4Q 2022

Sellers' Market Continues as Tight Market Conditions Persist

The start of the new year brought some positive economic news. First, ending the debate once and for all, the Bureau of Economic Analysis reported that, on an annual basis, US GDP grew by 2.9% in the fourth quarter of 2022 and 2.1% for the year. Second, consumer prices rose (“only”) 6.5% in the 12 months through December, marking the slowest inflation rate in more than a year and sending a clear signal that the Federal Reserve’s tightening campaign is working. And lastly, surpassing all expectations, U.S. job growth accelerated at the start of the year as employers added

517,000 jobs and pushed the unemployment rate to 3.4%, a 53-year low. In short, at the end of 2022 the economy grew, inflation declined, and unemployment fell. Even so, we’re not out of the woods yet because inflation is still too high. Consequently, the Fed will continue to raise interest rates throughout 2023 till it sees clear signs that inflation is under control, though now it will do so at a slower pace. All these trends bode well for industrial real estate and for the possibility, however slim, of avoiding a recession in Q3 or Q4 of this year.

Note regarding asking rates: Across the LA Basin, we are seeing landlords and owners putting property on the market without an asking rent or sales price. Due to this fact, there can be a large divergence between asking rates and the “strike price” or completed transaction (comp) rates on any deal. To give better perspective on what one can expect to pay within each submarket, we have included both average asking rates as well as average comp rates where pertinent.



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SOUTHBAY SUBMARKET



4Q Trends At A Glance



Absorption
(497,417 SF)



NNN Rent Overall
\$1.79 / SF



Sales Transactions
\$135.87 Million



Vacancy
1.5%



Under Construction
1,716,052 SF



Average Sales Price
\$377.39 / SF

Source: Costar Realty Information Inc.



4Q 2022 Southbay Industrial Overview

The South Bay industrial market had an excellent performance in the fourth quarter of 2022. Vacancy remained extremely tight at 1.5%. Demand for industrial product remained high even as net absorption negative for the quarter. Asking prices now stand at \$1.79 PSF, increasing \$0.52 over the last 12 months. Comp rates, however, are near \$2.25-2.35 PSF on average for Class A industrial space. Proximity to the ports is crucial for logistics and e-commerce tenants and they are the ones most aggressively seeking out Class A buildings in the South Bay. One building totaling over 107,000 SF delivered this quarter, while 13 buildings totaling over 1.7 million square feet are still under construction. Several of these projects are expected to deliver within the next six months. Twenty buildings traded hands this quarter totaling over \$135 million. Whether you use the average price per building square foot (PSF) or the median price per building square foot, both were the fourth highest on record. Respectively, they were \$377.39 and \$330.94 PSF.

Over the past half decade, institutional investors have had the advantage over owner-users in terms of being able to buy buildings. We are seeing signs, however, that market conditions are turning in the favor of owner-users.

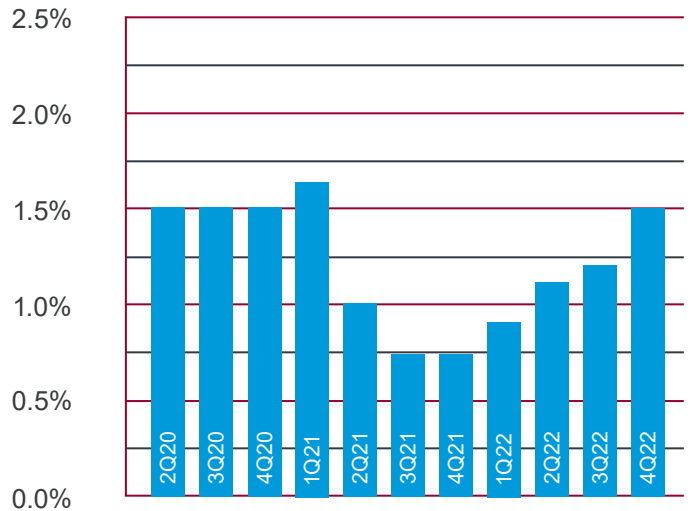
Even though the Fed will be raising interest rates at a slower pace in 2023, the question has been raised about whether new speculative (spec) development projects will decline going forward. We will have a better handle on this question by the end of Q1 2023.

Concerns about spec development notwithstanding, we do not see any decline in demand for industrial or warehouse/distribution real estate. Instead, we foresee demand continuing to outpace supply and the persistence of extremely tight market conditions favoring landlords and owners. Although their rate of increase might slow, rental rates and sale prices will remain extremely high in the South Bay.

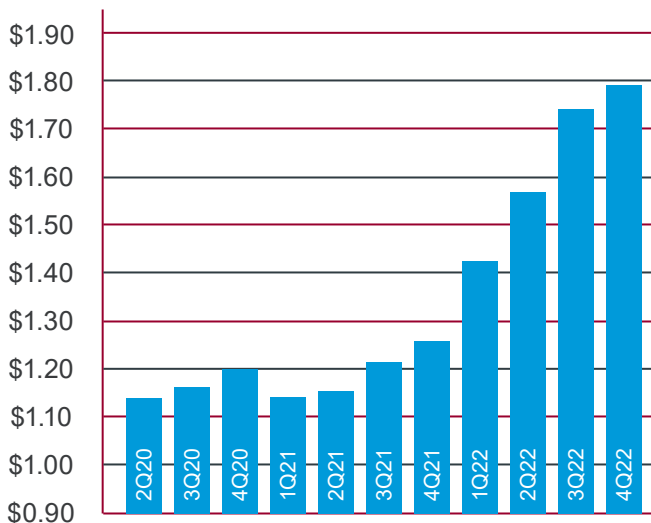
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 4Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
2230 E CARSON ST	LONG BEACH	DISTRIBUTION	SEKO LOGISTICS	198,292 SF
2960 E VICTORIA ST	RANCHO DOM	WAREHOUSE	KNIGHT TRANSP.	121,989 SF
399 W ARTESIA BLVD	COMPTON	MANUFACTURING	CALKO TRANSPORT CO.	87,202 SF
1401 SAN FRANCISCO AVE & 929 ANAHEIM ST	LONG BEACH	LAND	AIR PRODUCTS & CHEMICAL, INC.	278,349 SF

TOP SALES FOR 4Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
14400 S FIGUEROA ST	GARDENA	WAREHOUSE	\$405.97 / SF	156,527 SF
18931 S LAUREL PARK RD	RANCHO DOM	LAND	\$176.25 / SF	80,000 SF (USABLE)
3131 E HARCOURT ST & 18031 SUSANA RD	RANCHO DOM	WAREHOUSE	\$376.71 / SF	73,000 SF
1532-1560 E ANAHEIM ST	LONG BEACH	LAND	\$192.42 / SF	62,578 SF

MID COUNTIES SUBMARKET



3Q Trends At A Glance



Absorption
(110,395 SF)



NNN Rent Overall
\$1.57 / SF



Sales Transactions
\$575.34 Million



Vacancy
0.6%



Under Construction
288,673 SF



Average Sales Price
\$264.85 / SF

Source: Costar Realty Information Inc.

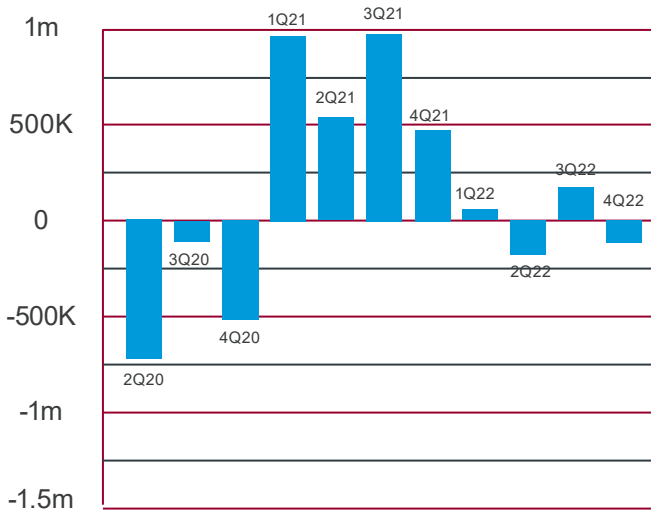


4Q 2022 Mid Counties Industrial Overview

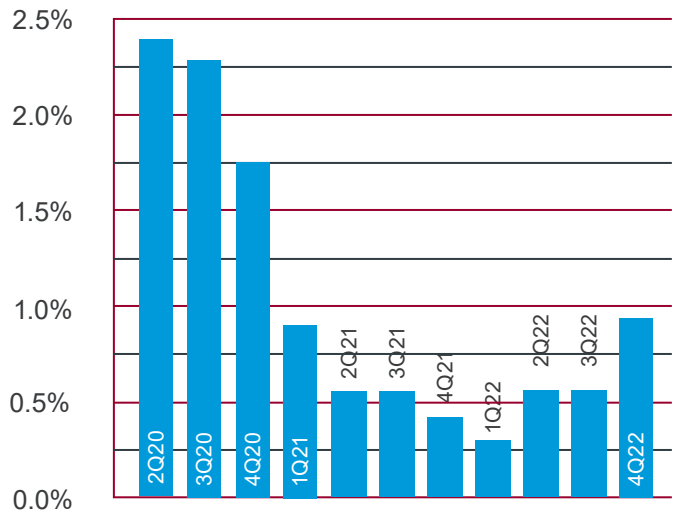
Mid-Counties continued to have the lowest vacancy rate of any major industrial submarket within Los Angeles at 0.9% or a little over 1 million square feet. To put that in perspective, the total amount of vacant square feet in Mid-Counties is (basically) equivalent to one building in the Inland Empire, South Bay, or Central LA. One building totaling around 44,000 square feet delivered in Q4, and a mere 288,000 SF was under construction at quarter's end. These numbers are inadequate to alleviate the lack of supply afflicting the submarket. It is not surprising, then, that only 858,000 SF was directly leased this quarter, less than the 850,000 leased in Q3. With very little development activity in the pipeline, Mid-Counties will continue to see tight market conditions, as limited availability will put upward pressure on rental rates. Average asking rents increased to \$1.57 NNN PSF, a year over year increase of about 72.5% from Q3'21's rate of \$0.91 PSF. We are seeing average comp rates

around \$1.76 PSF. Prepare renewing-tenants for sticker shock as rents have nearly tripled over the past 10 years. For reference, in Q4 2012, average asking rents were only \$0.49 NNN PSF. Building owners, however, can command a high price for their properties. Nineteen buildings traded hands this quarter and the average price per building square foot was \$264.85 for the quarter.

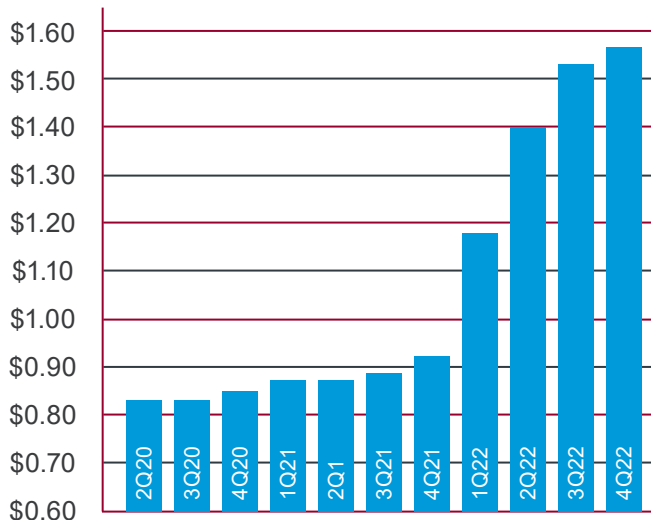
NET ABSORPTION



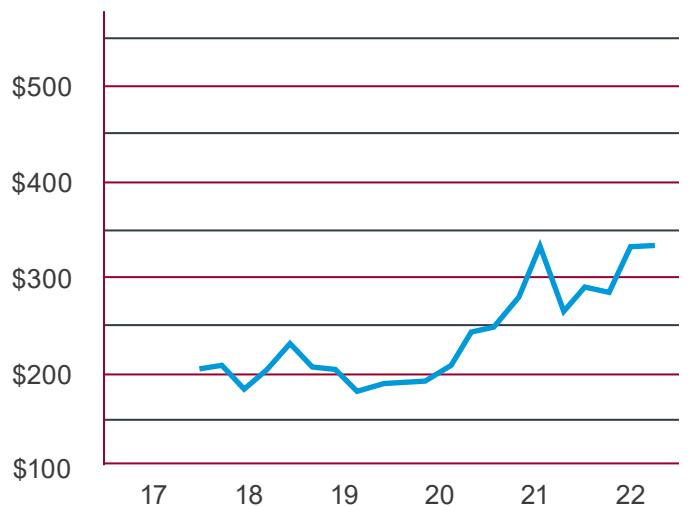
VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 4Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
14657 INDUSTRY CIRCLE	LA MIRADA	MANUFACTURING	BADGER PAPER BOARD CA LLC	46,228 SF
17625 FABRICA WAY, 1ST FLOOR	CERRITOS	MANUFACTURING	N/A	29,517 SF
10241 MATERN PL	SANTA FE SPRINGS	WAREHOUSE	KALE & ASH, INC	28,011 SF
7343 PIERCE AVE	WHITTIER	LAND	MJD TRANSPORTATION	52,645 SF

TOP SALES FOR 3Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
14001-14007 ROSECRANS AVE	LA MIRADA	WAREHOUSE	\$447.54 / SF	337,847 SF
15125 MARQUARDT AVE	SANTA FE SPRINGS	WAREHOUSE	\$214.03 / SF	70,084 SF
8741 PIONEER BLVD	SANTA FE SPRINGS	WAREHOUSE	\$181.95 / SF	59,905 SF
10330 GREENLEAF AVE	SANTA FE SPRINGS	LAND	\$93.56 / SF	83,904 SF

CENTRAL SUBMARKET



4Q Trends At A Glance



Absorption
(885,523 SF)



Average Rent
\$1.74 / SF



Sales Transactions
\$435.5 Million



Vacancy
3.0%



Under Construction
303,284 SF



Average Sales Price
\$313.62 /SF

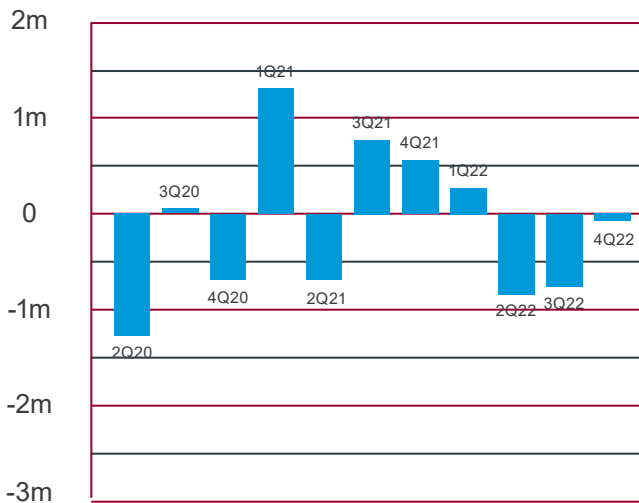
Source: Costar Realty Information Inc.



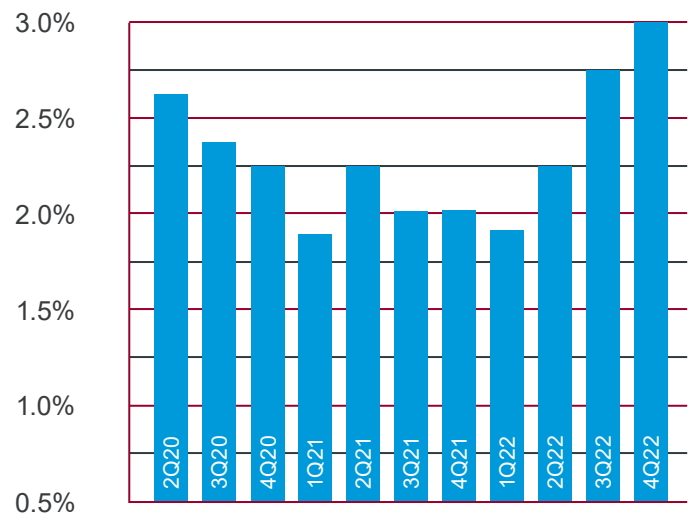
Vacancy in Central LA ended the quarter at 3.0%. Even with that extremely low rate, compared to the other submarkets within LA's industrial base, Central LA had the highest vacancy rate. Bear in mind that Central LA has had a vacancy rate below 3% for over 10 years now. With so little industrial space to transact, it is unsurprising that the total amount leased was just a little over 1.0 million square feet this quarter. Historically, the average square feet leased is 2.2 million per quarter. Although net absorption for the quarter was negative, as the transaction volume indicates, demand for modern warehouse space in Los Angeles is nearly insatiable. Unfortunately, available functional space to meet modern logistics needs are few and far between within the submarket. Although over 303,000 square feet of industrial space is under construction, and over 348,000 delivered this quarter, the amount of space added to the submarket over the years has not been enough to meet

the demand. The lack of supply has only added upward pressure on lease rates. Average asking rental rates are now \$1.74 per square foot (PSF), a year over year increase of 18% from Q4'21's \$1.47 PSF. Industrial demand is heavily concentrated in the Vernon and Commerce micromarkets, where food production and apparel manufacturing are the top industries. Commerce in particular has a large concentration of food manufacturing tenants. The spaces these tenants occupy come at a premium and will continue to drive up asking rents.

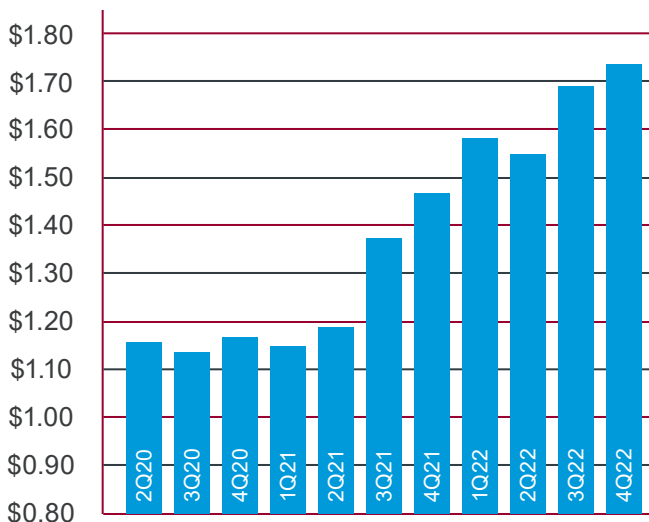
NET ABSORPTION



VACANCY



AVERAGE ASKING RENT BY QUARTER



ASKING PRICE PER SQ FT





Source: CoStar Realty Information Inc & AIR

TOP LEASES FOR 4Q22

ADDRESS	CITY	TYPE	TENANT	SQUARE FEET
4000 NOAKES ST	COMMERCE	WAREHOUSE	BOA	111,260 SF
5300 ALEXANDER ST	COMMERCE	WAREHOUSE	CRST EXPEDITED INC	49,462 SF
6001 E SLAUSON AVE	COMMERCE	WAREHOUSE	GOSINCRO, INC.	41,610 SF
6996-7044 BANDINI BLVD	COMMERCE	LAND	N/A	238,478 SF

TOP SALES FOR 4Q22

ADDRESS	CITY	TYPE	SALES PRICE	SQUARE FEET
8570-8600 MERCURY LN	PICO RIVERA	WAREHOUSE	\$378.77 / SF	244,780 SF
7125-7185 ROSEMEAD BL	PICO RIVERA	MANUFACTURING	\$378.77 / SF	111,639 SF
6303 CORSAIR ST	COMMERCE	WAREHOUSE	\$376.74 / SF	50,101 SF
2187 S GARFIELD AVE	COMMERCE	LAND	\$126.23 / SF	305,000 SF



With extremely low vacancy levels across the LA Basin, average rental rates are forecast to increase even more or remain at current levels. Expect market conditions to remain extremely tight and remain in the favor of landlords and owners. Most forecasters expect the US to face a mild recession in Q3 and Q4 of 2023. With that said, because consumer prices rose at the slowest inflation rate in more than a year, and core inflation, which excludes food and energy, was up only 5.7% over the same period, the smallest advance in a year, a significant minority of market actors now think it is possible that we can avoid a recession and achieve a soft landing. Goldman Sachs and Morgan Stanley are among those who affirm this . Regardless of where one stands on this matter, most forecasters and economic commenters maintain that the Federal Reserve's tightening campaign is working. Consequently, although the Fed is going to increase the Fed Funds rate

throughout 2023, it will do so at a slower pace, mostly likely in increments of 25 basis points.

With all that said, among all asset classes, whether in real estate or not, the industrial sector is well situated to weather any forthcoming economic headwinds. E-commerce growth in 2023 is projected to be 5% higher than from before the pandemic, and will stabilize in the years following . Demand for the product type remains stable and will remain so for the foreseeable future.

- *Washington Post Recession Forecast: <https://wapo.st/3xiccCx>*
- *Per Shopify's Forecast: <https://bit.ly/3ldJ64n>*
- *LEE LB treats the vacancy-available rate as the vacancy rate.*

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